PAMOUR PORCUPINE MINES, LIMITED

ANNUAL REPORT 1976

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PAMOUR PORCUPINE MINES, LIMITED

EXECUTIVE OFFICE ADDRESS:
P.O. BOX 45, COMMERCE COURT WEST
TORONTO, ONTARIO M5L 1B6
MINE OFFICE: Timmins, Schumacher, Ontario

DIRECTORS

J. A. Graham	Toronto
P. D. P. Hamilton	Toronto
The Rt. Honourable Roland Michener	Toronto
J. J. Rankin	Toronto
W. S. Row	Toronto
D. E. G. Schmitt	Toronto
A. W. Stollery	Toronto

OFFICERS

D. E. G. Schmitt	President
J. A. Graham	Vice-President
J. M. Slack	General Manager
B. H. Grose	Secretary
E. K. Cork	Treasurer

TRANSFER AGENT AND REGISTRAR:
Canada Permanent Trust Company, Toronto and Montreal

ANNUAL MEETING:
April 26, 1977 — 11:00 A.M. (Toronto Time), King Edward Hotel

DIRECTORS' REPORT TO SHAREHOLDERS

This 43rd Annual Report includes the mine manager's summary of operations at six mine sites, the financial statements with explanatory notes for the year ending December 31, 1976 and the auditors' report. The total of dividends paid since commencement of operations in 1936 remained at $15,680,000, as there were no dividends declared for 1976.

The consolidated operating loss incurred in 1976 was $6,432,000 compared to $3,834,000 in 1975. Metals in inventory at year end were valued at $118 per ounce of gold, $4.00 per ounce of silver and 63¢ per lb. of copper, and totalled $4,682,000. The average price realized for gold in bullion and in concentrate was $122.06 per ounce and for copper in concentrate, was 63.6¢ per pound.

The increased overall operating loss was partially due to inflated costs, but more particularly to depressed prices for gold which followed auction sales of the metal by the U.S. Treasury in 1975 and the subsequent declarations of intention by the International Monetary Fund to sell 25 million ounces of gold over a 4-year period commencing in 1976. Canada was among the member nations which supported that plan.

ROSS MINE

Effective June 1, 1976, the Ross mine at Holtyre, some 57 miles east of Timmins, and the inactive Hollinger main mine property which adjoins the Schumacher mine in Timmins, were acquired from Hollinger Mines Limited for a purchase price of $600,000 payable at a rate of $2.00 per ton of ore treated from the Ross mine within the following two years. It was expected that integration of the Ross operations and the mining of ore grade remnants from the Hollinger Timmins property would provide a positive profit contribution by closing the Ross mill for salvage purposes and trucking the ores produced to the Schumacher mill for treatment.

OPERATIONS

Operating economies resulted in a total cost of production from six mining sites that was lower than the costs at four mining sites in 1975. The total tonnage of ores treated in the two mills was higher than for 1975 after excluding 112,800 tons of custom ore averaging 0.102 oz. of gold per ton that was milled in 1975. The average gold content of the ores was slightly better and the total production of gold was higher by some 15,300 ounces as compared with 1975. Even with the addition of most of the Ross mine crew at mid year, the total number of employees was reduced by more than 30% and productivity in terms of tons of ore treated per manshift, improved by 17%. The average cost of producing an ounce of gold was reduced by 12%, as compared to 1975, and for December averaged $118.51 per ounce.

METAL MARKETS

Gold

Western World Balance — '000,000 Troy Ounces

	1974	1975	1976	Est. 1977
Supply	40.3	36.2	40.4	41.5
Consumption	23.7	30.5	37.0	40.0
Investment (speculation)	16.6	5.7	3.4	1.5

The price of gold declined progressively from $140 per ounce in January to $103 at the end of August. The IMF auctions were the major cause of this price depression, particularly the first three auctions. By December the inherent value of gold had overridden the impact of the IMF auctions and the price recovered to average $134 for the month.

Industrial and coinage consumption has recovered strongly since the sharp drop in 1973 when prices rose rapidly. Supply and demand should be in balance in 1977 and there could be a shortage of supply in 1978 if demand is not dampered by a too rapid rise in the price of gold. The IMF auctions are currently oversubscribed and are not expected to deflate prices from year end levels. Supporting the price improvement in 1977 is a strong jewellery market, good investment demand from the Middle East, a well organized Krugerrand marketing program, jewellers technical assistance supported by South Africa, formation of the Gold Institute, and an expected positive impact on the market as a result of changes in the United States' Government and its Administration.

Copper

Western World Balance — '000 Short Tons

	1974	1975	1976	Est. 1977
Supply	7,730	6,875	7,370	7,771
Consumption	7,280	6,090	7,140	7,650
Year end stocks	975	1,760	1,990	2,111

Supply continued to exceed consumption with resulting record high stock levels. CIPEC production is at effective capacity and U.S. mine production is up to 1974 levels. While producer stocks fell 110,000 tons in 1976, LME and Comex stocks were up 214,000 tons. In addition, merchant purchases, most of which are still in inventory, exceeded the draw down in producer stocks. It will take a further rise in consumption, triggered by accelerating U.S. recovery, to balance supply and support higher prices unless there is significant loss of production due to work stoppages in the course of labour negotiations which begin in the first half of this year at most North American operations.

GENERAL

There was no exploration of outside properties; underground diamond drilling and development were reduced, and proven reserves of gold and copper bearing materials declined at all mine sites as stringent economies were imposed. The incentive for mining efforts has been the hope of earning a profit. The technology and economics of the times determine the line of demarcation between ore and waste rock. Good management and a well motivated team of capable and experienced employees can have a positive effect on that line of demarcation. However, the burden of increasing government in terms of policy, regulation and assessment which adversely affect the net return from production, is gradually converting ore reserves to a mineral inventory of uncertain value. The continuation of gold mining which has contributed so much to the wealth of this country is in jeopardy.

The equilibrium price for gold in response to the natural balancing forces of supply and demand, should range from $140 to $150 per ounce in 1977. In that circumstance it should be possible for operations to continue. But without steady improvement in productivity, close control of costs and better prices for metals, the margin for profit will be precarious.

Pamour has a proud history of more than 40 years of continuous, uninterrupted economic production of gold from very low grade ores which added substantial real value to the credit of Canada. Abandonment of established plants and withdrawal from the gold bearing structures of the famous Porcupine Area, would be a painful experience for everyone involved in the mine's struggle for survival.

In managing production from six different mining sites, transportation, and treatment of the ores in two mills, — the staff and employees effected a remarkable improvement in productivity and during the last quarter of 1976; the average tonnage of ore treated per manshift was 53% higher than for the year 1975. There was a modest operating profit in the final month of the year, and the orderly program for curtailment of manpower was suspended in the hope that the corner had been turned.

The continuing loyal support and good will of the management, staff and all employees throughout a most difficult year is gratefully acknowledged.

On Behalf of the Board,

D. E. G. SCHMITT,
President.

Toronto, Ontario,
February 21, 1977.

MANAGER'S REPORT TO THE DIRECTORS

The following report summarizes operations for the year 1976 at the six operating minesites.

PRODUCTION Mine Sites		Pamour Nos. 1 & 2	No. 3 and Hollinger Property	Schumacher Division	Ross Mine (7 Months)	Totals 1976	Totals 1975
Ore milled	— tons	836,354	178,696	769,896	90,174	1,875,120	1,912,698*
Ore milled/day	— tons	2,285	488	2,104	421	5,123	5,240
Average grade							
Gold	— oz./ton	0.0967	0.1791	0.060	0.1410	0.091	0.078
Copper	— %	—	—	0.440	0.1307	0.187	0.580
Silver	— oz./ton	—	—	0.102	0.1856	0.050	0.222
Concentrate produced	— tons	—	—	12,082	346	12,428	12,859
Copper in concentrate	— lbs.	—	—	6,110,540	174,840	6,285,380	7,800,160
Gold in bullion and concentrate	— oz.	73,702	28,628	40,202	10,896	153,428	149,582*
Silver in bullion and concentrate	— oz.	6,201	2,828	51,952	8,836	69,817	62,710
Recoveries							
Gold	— %	91.13	89.44	87.37	85.67	89.51	86.62
Copper	— %	—	—	90.14	74.19	89.79	91.96
Silver	— %	—	—	66.25	61.96	65.50	81.79
Productivity	— tons/manshift	9.2	5.59	6.06	12.74	7.23	6.19
Employees at year-end	— No.	326	90	377	63	856	1,219

* Including 112,800 tons of custom ore averaging 0.102 oz. gold per ton.

MINING

Development Advances		Pamour Nos. 1 & 2	No. 3 and Hollinger Property	Schumacher Division	Ross Mine (7 Months)	Totals 1976	Totals 1975
Drifts and raises	— feet	2,714	537	3,515	549	7,315	14,394
Stope preparation	— feet	13,018	3,985	4,596	1,208	22,807	22,380
Diamond drilling	— feet	19,653	6,219	33,425	Nil	59,297	106,161

Development was substantially reduced by mid-year to limited advances on the Hollinger property to outline a carbonaceous zone and at the Ross Division to develop the upward extension of 18 vein.

Diamond Drilling

Diamond drilling was limited to the carbonaceous zone at Schumacher Division, the 65 and 66 veins at No. 1 mine and the lower zone at No. 3 mine.

Stoping

At No. 1 mine, stopes in the west end were stopped and crews transferred to the higher grade 51 vein. A second open pit, southeast of No. 1 pit and adjacent to the east boundary was developed for production in the third quarter. Some 28% of the total tonnage milled was mined from open pits.

Mining was completed at the No. 2 mine and salvaging of broken material was near completion.

At the No. 3 mine, stopes in the No. 2 shaft area were shut down and crews moved to salvage the higher grade material in the area serviced from the No. 3 internal shaft.

Work on the Hollinger property included the stripping of overburden and mining of 34,340 tons averaging 0.085 oz./ton of gold from three surface pillars.

At the Schumacher Division gold stoping was suspended between the 38 and 78 levels and production was started from the carbonaceous zone between the 10 and 18 levels. Copper mining from below the 38 level was stopped and production was limited to the developed stopes above that level. In December, ten higher grade gold stopes were re-opened in the 12 shaft area below 38 level.

The Ross Division mill was closed in June and ore from the mine trucked to the Schumacher Division for treatment. The average grade of the ore drawn was lower than expected and long hole drilling was increased to make better grade material available. Mining at year end was restricted to previously developed stopes.

Mineral Inventory

Estimates as of January 1, 1977:

	Tons	Gold Oz./Ton	% Copper	Silver Oz./Ton
No. 1 mine	1,296,000	0.10	—	—
No. 3 mine	52,360	0.245	—	—
Schumacher Division	1,544,155	0.071	0.552	0.085
Ross mine	376,500	0.157	—	—

3.266

General

The planned reduction of the work force mainly affected the people with less seniority in the service, development and mining areas of low productivity. Work performances improved and productivity in terms of ore milled per manshift worked increased from 6.19 tons in 1975 to 7.23 in 1976.

The average mine site cost per ton of ore treated was reduced some 5%, compared with 1975, to $14.64 per ton and the cost per ounce of gold produced was similarly reduced by 10% to $148.29.

In conclusion, I express my thanks to the staff who willingly gave much of their free time and to the employees for their increased contributions to production during the year.

Respectfully submitted,

A. A. ADAMSON,
Manager.

Schumacher, Ontario,
February 2, 1977.

PAMOUR PORCUP

(Incorporated unde

BALANCE SHEET AS

ASSETS

	1976	1975
	(in thousands)	
Current Assets	$	$
Cash	**120**	196
Bullion and concentrates	**4,682**	7,333
Income taxes recoverable	**—**	464
Marketable investments — at cost (quoted market value $491,000)	**475**	1,093
Accounts receivable	**198**	279
Stores — at cost	**2,283**	2,010
Prepaid expenses and deposits	**941**	74
	8,699	11,449
Investments (note 2)	**7,378**	7,356
Fixed Assets		
Plant, buildings, equipment and townsite — at cost	**9,307**	9,279
Accumulated depreciation	**5,025**	4,338
	4,282	4,941
Mine properties — at cost, less amortization	**1,164**	1,798
	5,446	6,739
Goodwill — at cost, less amortization	**—**	14
	21,523	25,558

AUDITORS' REPORT

We have examined the balance sheet of Pamour Porcupine Mines, Limited as at December 31, 1976 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

E MINES, LIMITED

laws of Canada)

DECEMBER 31, 1976

LIABILITIES

	1976	1975
	(in thousands)	
Current Liabilities	$	$
Bank overdraft and short-term loans	**9,250**	7,269
Accounts payable	**3,252**	2,886
Due to associated companies	**547**	441
	13,049	10,596
Taxes provided not currently payable	**—**	309
SHAREHOLDERS' EQUITY		
Capital Stock (note 3)		
Authorized —		
10,000,000 Class A common shares of no par value		
10,000,000 Class B common shares of no par value		
Issued and fully paid —		
6,729,791 Class A	**8,064**	8,092
270,209 Class B	**324**	296
	8,388	8,388
Retained Earnings	**86**	6,265
	8,474	14,653
	21,523	25,558

Signed on behalf of the Board:

D. E. G. SCHMITT, Director.

J. A. GRAHAM, Director.

HE SHAREHOLDERS

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants.

February 2, 1977.

STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
	(in thousands)	
Revenue	$	$
Gross value of bullion and concentrates produced	**23,302**	26,652
Less: Treatment and marketing costs	**1,682**	1,478
	21,620	25,174
Expense		
Cost of production	**26,255**	27,084
Exploration expense	**—**	36
Administrative expenses	**314**	264
Depreciation and amortization	**1,483**	1,624
	28,052	29,008
Operating Loss	**6,432**	3,834
Investment Income (Loss)		
Income from associated companies	**571**	695
Other dividends	**33**	49
Profit on sale of investments	**34**	33
Interest expense	**(777)**	(510)
	(139)	267
Net loss before taxes	**6,571**	3,567
Income and production taxes recovered	**(392)**	(1,471)
Net Loss for the Year	**6,179**	2,096
Loss per Share	**88.3¢**	29.9¢

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
	(in thousands)	
	$	$
Balance — Beginning of Year	**6,265**	8,361
Net loss for the year	**6,179**	2,096
Balance — End of Year	**86**	6,265

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1976

	1976	1975
	(in thousands)	
	$	$
Working Capital — Beginning of Year	**853**	3,288
Source of Funds		
Stores acquired from Hollinger (note 4)	**275**	—
Sale of fixed assets	**268**	—
Sale of investments	**183**	—
Reduction in advance to associated company	—	13
	726	13
Application of Funds		
To operations —		
Net loss	**6,179**	2,096
Depreciation and amortization	**(1,483)**	(1,624)
Taxes provided not currently payable	**309**	869
Earnings of associated company	**91**	15
	5,096	1,356
Purchase of Hollinger mine assets (note 4)	**600**	—
Other additions to fixed assets (net)	**119**	972
Additions to mine properties	—	120
Advance to associated company	**114**	—
	5,929	2,448
Net Decrease	**5,203**	2,435
Working Capital (Deficiency) — End of Year	**(4,350)**	853

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1976

1. Accounting Policies

(a) Bullion and concentrates
Consistent with industry practice, the company records as revenue the estimated realizable value of bullion and concentrates awaiting settlement, in transit and on hand.

(b) Depreciation and amortization
Depreciation of plant, buildings, equipment and townsite, and amortization of mine properties, are provided at rates designed to write off the capital costs associated with each mine over its estimated productive life. Generally the straight-line method is used.

2. Investments

Investments include the folowing:

	1976	1975
	$	$
Shares in associated companies — at cost (quoted market value $12,423,000)	6,956,000	7,138,000
Shares in and advances to an associated company at cost adjusted by the company's equity in income or losses since the date of investment	422,000	218,000
	7,378,000	7,356,000

At December 31, 1976 the investments included 214,710 shares of Noranda Mines Limited with a quoted market value of $6,173,000 and 400,000 shares of Kerr Addison Mines Limited with a quoted market value of $5,250,000.

3. Capital Stock

The Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on Class B shares be paid, in whole or in part, out of 1971 capital surplus on hand (as defined in the Income Tax Act).

During the year, 23,070 Class A shares were converted to Class B shares.

4. Purchase of Hollinger Assets

Pursuant to an agreement, the company acquired from Hollinger Mines Limited on June 1, 1976, the mine assets and mine realty of the Ross mine at Holtyre, Ontario, and the mine realty of the Hollinger mine at Timmins, Ontario. The purchase price was $600,000, including $275,000 for stores inventories, and is payable at the rate of $2.00 per ton of ore treated from the Ross mine.

The following information is presented in accordance with subsection 3(17) of Section 126 of the Ontario Securities Act:

	$
Assets acquired at the book value of the seller	916,000
Adjustment to fair value	(316,000)
Equated to:	
Cash payments made and to be made	600,000

5. Income Tax Loss Carry Forward

At December 31, 1976 the company has losses available for carry forward amounting to $5,900,000 which may be applied against taxable incomes of the years 1977 to 1981.

6. Anti-Inflation Program

The company is subject to, and believes it has complied with, controls on prices, profits, employee compensation and shareholder dividends under the Federal government's Anti-Inflation Program which is presently scheduled to be in force until December 31, 1978.

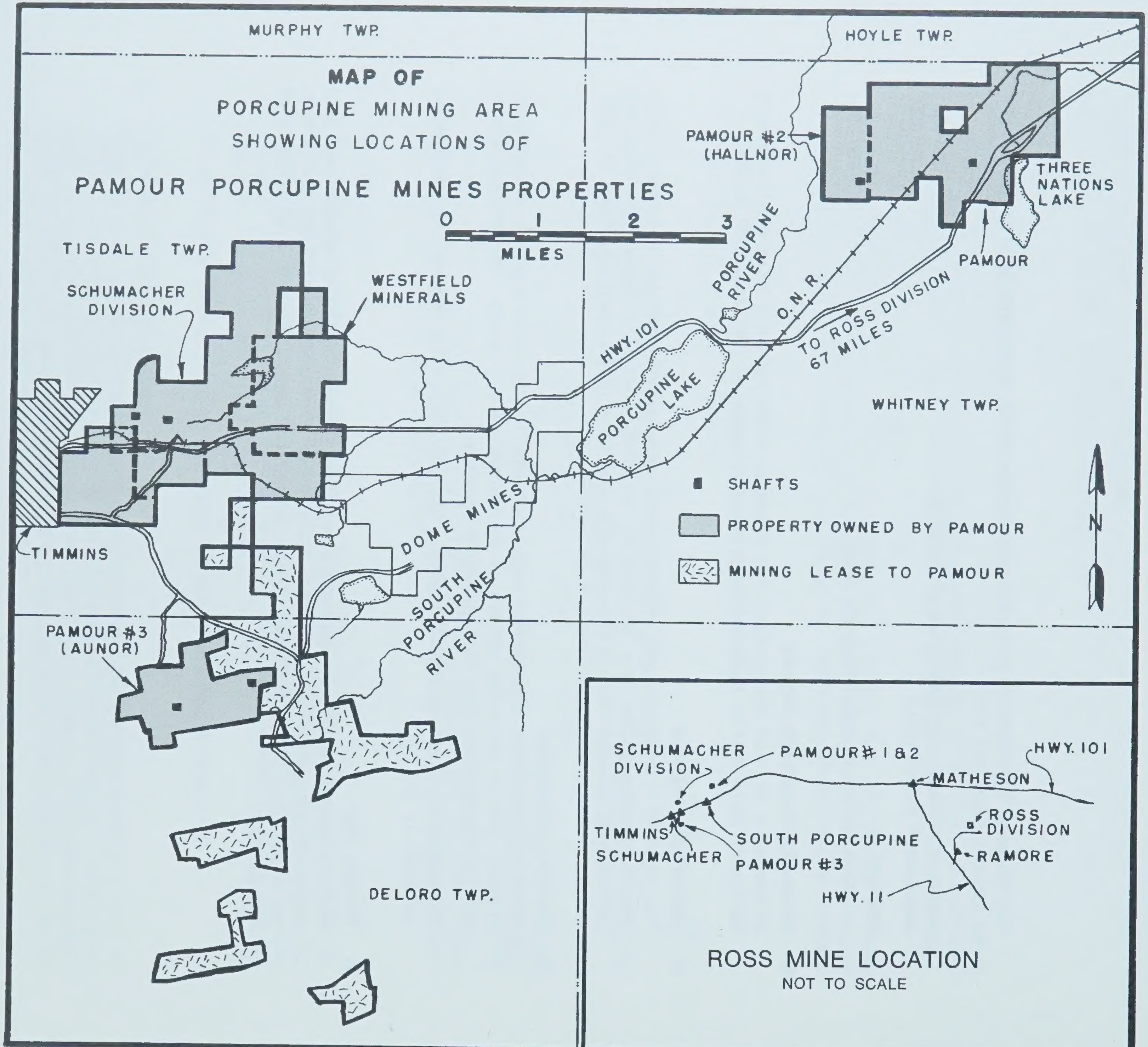
7. Statutory Information

The aggregate direct remuneration paid or payable to the seven directors amounted to $10,400. Two of the seven officers of the company are directors. No remuneration is paid to officers other than for services as directors.

The aggregate direct remuneration paid or payable to the five highest paid employees amounted to $134,533.

8. Pension Plan

As at December 31, 1976 the company's unfunded obligation under its pension plan with respect to past service is estimated at $500,000, of which $50,000 has been provided in the accounts in 1976. The balance will be absorbed against income over a period of five years.



MURPHY TWP.
HOYLE TWP.
MAP OF
PORCUPINE MINING AREA
SHOWING LOCATIONS OF
PAMOUR PORCUPINE MINES PROPERTIES
0 1 2 3
MILES
TISDALE TWP.
SCHUMACHER DIVISION
WESTFIELD MINERALS
PAMOUR #2 (HALLNOR)
THREE NATIONS LAKE
PAMOUR
PORCUPINE RIVER
O.N.R.
HWY. 101
TO ROSS DIVISION 67 MILES
PORCUPINE LAKE
WHITNEY TWP.
SHAFTS
PROPERTY OWNED BY PAMOUR
MINING LEASE TO PAMOUR
N
DOME MINES
SOUTH PORCUPINE RIVER
TIMMINS
PAMOUR #3 (AUNOR)
DELORO TWP.
SCHUMACHER DIVISION
PAMOUR # 1 & 2
HWY. 101
MATHESON
ROSS DIVISION
RAMORE
TIMMINS
SCHUMACHER
SOUTH PORCUPINE
PAMOUR #3
HWY. 11
ROSS MINE LOCATION
NOT TO SCALE

- to [illegible] the going [illegible]

- " ~~have~~ 42,000 oz. steel at bridge

  $147 to $150, expect out as soon

  as we can.

- Steel - labor cont. 4 - 5 mines while out.

- Q - was special case, not play in future

  A. "You are correct."

148.27

1st Q
310,000 (821,000)

$138 [illegible] [illegible]

1st Q
($113,000) 1.6¢

upswing w.c $219,000

$338,000 loss on futures
(whole april?)
still have 42 000 oz hedged
about 3 month production

futures
" not consider spec. on futures, as
hedging reason to ensure income
for 3 mos schedule per
during which might be found
to phase out, conclude
operation.
- recog. would be high cost
est. $4-5-mill, hedged 3-mos
prodn to ensure reasonable
income look after obligat
- ultimately, until new market
hedge should be phased out